

## Message Text

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ACTION EA-10

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00

SP-02 L-01 EB-03 /041 W

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P 280922Z APR 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 7818

C O N F I D E N T I A L JAKARTA 5009

LIMDIS

E.O. 11652: GDS

TAGS: EINV ID

SUBJECT: KRAKATAU STEEL

FOR DEPUTY ASSISTANT SECRETARY EDMONDS, EA

1. ECONOMIC COUNSLEOR HAS RAISED WITH ME QUESTION OF POSSIBLE ROLE BY U.S. FIRMS IN GOI RESTRUCTURING OF KRAKATAU STEEL PROJECT. INFORMATION FROM SENSITIVE SOURCE INDICATES TWO AMERICAN FIRMS, ARMCO AND MCKEE, ARE AMONG FOUR FIRMS INVITED IN TELEX ON FRIDAY, APRIL 25, TO EXPRESS INTEREST IN CONSULTING CONTRACT TO GOI FOR RESTRUCTURING. KAISWER ALSO VERY INTERESTED BUT NOT ON SHORT LIST ITSELF AND COULD ONLY PARTICIPATE IF ANOTHER U.S. FIRM OPTED OUT IN ITS FAVOR. FRENCH FIRM SOFRASIN PROBABLY HAS INSIDE TRACK AND HAS COMMITTED TO TAKE UP THE CONSULTANCY IF OFFERED.

2. PRESENT THINKING IS TO LIMIT PROJECT TO PHASE I OF 500,000 TO PER YEAR CONTRACTING FOR WHICH IS FAIT-ACCOMPLI. PROJECT MAY AGAIN BECOME MAJOR INTEREST OF FOREIGN SUPPLIERS IF TECHNICAL AND ECONOMIC QUESTIONS SURROUNDING POSSIBLE EXPANSION BEYOND THAT LEVEL ARE RESOLVED. IN SUCH CASE SELECTION OF EUROPEAN CONSULTANT NOW MIGHT DISADVANTAGE U.S. SUPPLIERS IN FUTURE.

3. AS YOU KNOW, KRAKATAU STEEL COMPLEX IS AT HEART OF  
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CURRENT PERTAMINA FINANCIAL PROBLEM. ALL INFORMATION

INDICATES CONTRACTS WITH GERMAN FIRMS FOR STEEL PLANT, HOUSING, POWER, PORT AND OTHER ASPECTS ARE HEAVILY OVERPRICED AND HAVE INVOLVED SUBSTANTIAL KICKBACKS. DESPITE GOVERNMENT ASSUMPTION OF CONTROL, PERTAMINA AND GERMAN FIRMS WILL PROBABLY MAKE STRENUOUS EFFORTS PRESERVE AT LEAST PART OF THEIR ROLE AND BENEFITS. ENTIRE PROCESS LIKELY TO BE VERY POLITICAL. BEYOND THAT, SOME DOUBTS STILL EXIST REGARDING TECHNICAL (USE OF DIRECT REDUCTION PROCESS, ADEQUACY OF GAS SUPPLY, SUITABILITY AUSTRALIAN ORE) AND ECONOMIC FEASIBILITY.

4. ARMCO AND MCKEE SHOWED EARLY INTEREST IN PROJECT THROUGH PARTICIPATION IN SPECIAL MISSION PUT TOGETHER BY EMBASSY AND MAJOR PROJECTS DIVISION (MEPD) OF DEPARTMENT COMMERCE IN DECEMBER 1973. THEIR CURRENT INTEREST IS UNKNOWN TO EMBASSY.

5. I HAVE INSTRUCTED ECONOMIC/COMMERCIAL SECTION, PENDING FURTHER ADVICE FROM DEPARTMENT, TO REFRAIN FROM ANY DIRECT ENCOURAGEMENT TO U.S. CONSULTANTS OR COMPANIES TO ENTER KRAKATAU PICTURE. WE ARE ALREADY ENCOUNTERING UNDERCURRENT WHICH LINKS PERTAMINA POLITICAL DIFFICULTIES WITH U.S. POLICY "AGAINST" OPEC COUNTRIES. I DO NOT WISH USG TO PROMOTE SITUATION IN WHICH BLAME COULD BE PLACED ON U.S. CONSULTANTS FOR HARD DECISIONS GOI MAY NEED TO TAKE IN REORGANIZING KRAKATAU AND USG WOULD RISK LANDING IN MIDDLE OF HIGHLY SENSITIVE INTERANL SITATUION. IF WASHINGTON SHOULD JUDGE THAT USG SHOULD NOW ENCOURAGE FAVORABLE RESPONSE BY U.S. FIRMS TO INVITATION, IT SHOULD ONLY BE DONE IF THERE IS CLEAR ASSURANCE THAT USG HAND WILL NOT BE SHOWN TO INDONESIANS AND IF U.S. FIRMS CLEARLY UNDERSTAND KIND OF SITUATION THEY ARE ENTERING. IF FIRMS SHOULD DECIDE TO ACCEPT, PROMPT AND DECISIVE EXPRESSION OF INTEREST REQUIRED BY MAY 1.

6. WOULD APPRECIATE EA'S DISCUSSING SITUATION WITH COMMERCE AND ADVISING WHETHER WASHINGTON JUDGMENT DIFFERENT IN TERMS RISK AND APPROPRIATENESS OFFICIAL U.S. INTEREST.

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## Message Attributes

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**Draft Date:** 28 APR 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
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**Review Date:** 16 JUL 2003  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**TAGS:** EINV, BPRO, ID, US, KRAKATAU STEEL  
**To:** STATE  
**Type:** TE  
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